

15 July 2016

Dear Sirs,

## **NORTHERN POOL - Pooling of Local Government Pension Scheme investments**

We are delighted to enclose the Northern Pool's submission to Government on the progress that Greater Manchester Pension Fund, West Yorkshire Pension Fund and Merseyside Pension Fund, have made in forming a Collective Asset Pool of £35 billion, which represents approximately 20% of the LGPS' investment power, and meets the criteria issued by Government on 25 November 2015.

We set out in the submission how through effective but simple democratic governance we will achieve:

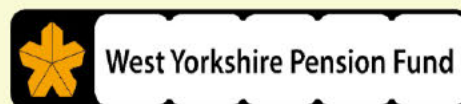
- ✓ £1 billion plus infrastructure pot in coming weeks, which we believe can be scaled up for others to join and obtain the benefits, which have resulted from the Pool being created from some of the most successful funds in the LGPS;
- ✓ 10% commitment to infrastructure investment;
- ✓ cost savings to emerge from Summer 2016 onwards, with estimated annual savings of £28 million - representing an ongoing saving of 25%;
- ✓ clear recognition as the lowest cost pool in the LGPS on a like-for-like basis; and
- ✓ simple democratic governance arrangements, which deliver Government's aims of accountability for the tax payer.

### **Most cost effective structure**

In order to meet the Government Criteria, against which, we are advised that all funds will be required to meet, the collective pool assets will be managed by an operating company, which will seek authorisation from the Financial Conduct Authority to operate as an Alternative Investment Fund Manager (known as an 'AIFM'). The three participating funds will own equal share capital in the Investment Management Company. Considerable thought has been given to determining the most appropriate legal structure for the ownership of the Pool's listed assets and specialist external legal and financial advice has been sought.

Whilst we acknowledge it is appropriate that the majority of other LGPS pools will be establishing an Authorised Contractual Scheme (known as an 'ACS'), we do not believe this would be expedient for the Northern Pool. The scale of the existing mandates (GMPF has a circa £6bn external balanced mandate and WYPF internally manages circa £9bn of listed assets), with limited overlap between mandates and low-cost, low turnover approach of the Northern Pool, mean that holding listed assets in an ACS would not be the most cost effective or efficient approach for the Northern Pool. Our approach reduces set up costs between £4.2m and £8.4m and reduces the ongoing costs by £1.35 million per annum compared to using the ACS vehicle.

Therefore, in line with our fiduciary duty to both LGPS members and taxpayers we are proposing to retain segregated mandates for listed assets to achieve the overriding interests set out in the Governments Criteria. The oversight body of democratically elected members with the support of external advisors representing the 20 Metropolitan Councils and Ministry of Justice together with the 1,000 plus employers will hold the AIFM to account to ensure that the Northern Pool maintains



the good investment returns and low costs that have resulted in low contribution rates for the benefit of taxpayers generally.

### **Cost savings**

The savings arise predominantly from the increased resource of the Pool enabling many alternative asset classes to be accessed in a more cost effective way. Over the implementation period, our ambition is to:

- ✓ Move from private equity fund of funds to single funds/co-investments
- ✓ Move from hedge fund of funds to single strategy funds.
- ✓ Reduce the proportion of indirect property relative to direct property
- ✓ Reduce the proportion of indirect infrastructure relative to direct infrastructure

Additional cost savings will be achieved from moving the management of a proportion of the equities and bonds which are currently externally managed to in-house management over a period of time, as appropriate internal capacity is developed.

In many respects, the funds in the Pool start from an advantageous position of already having many of the economies of scale that other pools are seeking. As a result, the potential cost savings are likely to be lower than in other pools. That said, we believe that a 25% reduction is significantly ambitious and represents real value to taxpayers.

### **Infrastructure**

We are keen to create a significant investment pool, which will enable us to compete with global wealth funds to invest in major regional and national infrastructure projects such as airport expansion, major new road and rail schemes, housing developments and energy production growth.

We have a long-history of making significant direct local infrastructure investments such as the Matrix Homes initiative as referenced in the Government's Criteria, which unlocked difficult brownfield sites to build hundreds of much needed houses.

Recognising this, we seek to build on the existing strengths of the participating funds, further developing internal capacity, skills and resilience and sharing this across other LGPS pools on a collaborative basis. This is where we strongly believe that greatest value can be added by the large LGPS funds such as ourselves. The pooled fund will add to and strengthen the investment already taking place.

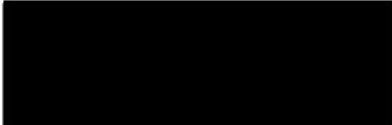
With such a large investment pool comprised of partners from across the North, the fund will deliver both the commercial returns required and social value to the regions that each of the funds represent. Pooling arrangements would help increase this capacity for infrastructure investment and further increase the proportion of investment in this asset class achieving a minimum 10% investment within 3-5 years with the ambition to increase this investment further to 15% in the long term.

In particular, we are currently in the process of creating a £1 billion infrastructure funding pool by expanding the existing Greater Manchester / LPFA infrastructure (GLIL) vehicle. This will enable investment in larger infrastructure investments on a direct basis and achieve our ambitions for growth. Access to investments of this scale is often out of the reach of individual pension funds, and certainly some of the smaller funds. We believe this infrastructure vehicle provides an

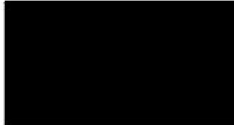
opportunity to create a national fund with a focus on long term economic growth and social benefit, which could provide a national solution to all the newly created LGPS Pools should they wish to access.

We will look forward to further discussion with Government and our stakeholders over the forthcoming months.

Yours sincerely,



**Greater Manchester Pension Fund**



**West Yorkshire Pension Fund**



**Merseyside Pension Fund**